MEMO

June 18, 2001

TO: All Chubb Elected Officers
FROM: Dean O'Hare

At the outset of 2001, I delivered a difficult message at our Managers' Meeting in Florida. I said then that we could not expect to continue to turn in financial results that disappointed our shareholders without risking dire consequences for the future of the company – most importantly, our independence.

I exhorted the leaders of the company to concentrate on three things: put an end to the underwriting mistakes that have cost us dearly – both for existing accounts up for renewal and for new business that we put on the books; get as much rate as we can everywhere we can; and control expenses by treating the company's money as if it were our own. For the most part, you are responding wonderfully. For example, CCI rates are way up, and the quality of that book has noticeably improved.

To get at the third goal, we announced a hiring freeze for the entire company and a salary freeze for vice presidents and above. The hiring freeze was designed to save us some real bucks and get the message out that we needed to become more productive and to do a better job of controlling the company's largest cost (next to losses and commissions): employee compensation. The salary freeze was designed to send a strong personal message to managers, although the savings were much smaller than those resulting from the hiring freeze. We said we would take another look at both the hiring freeze and salary freeze at mid-year.

We will end the salary freeze on June 30. To ensure that all officers share the burden equally, not just those whose review dates fall in the first half, all merit increases for all VPs and above will be delayed by six months. If you were due for a raise on March 1, 2001, you will begin receiving it on September 1, 2001. If you will be due on October 1, 2001, your increase will take effect on April 1, 2002.

The hiring freeze, however, will continue for the balance of 2001. Let me explain why.

We have in fact made significant progress since the beginning of the year -- in certain areas. Even after two years of increases, U.S. renewal rate increases in CCI are still in the double digits. Now that most of the industry has recognized the need for higher rates, increases should be easier to come by. In the area of underwriting quality, we have nonrenewed the really bad business and raised rates substantially on the so-so business. Policy year results demonstrate that the new business we put on the books is improving the quality of the overall book. In addition, accident year results demonstrate that the accounts renewed since the beginning of the program are performing much better than the accounts we culled.

We still have a rate need in both CCI and CSI. Every day we read news accounts of runaway jury awards of punitive damages and futile attempts to curb the ravenous appetite of the plaintiffs' bar as they rampage from industry to industry and from issue to issue.

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In the area of expense control, however, I do not see enough positive movement. True, as a result of the hiring freeze, staffing levels are nearly flat compared with year-end 2000. That's a move in the right direction, but it's not where we need to be in light of slower-than-projected revenue growth. We tell everyone including ourselves that Chubb service costs more and that is the reason our expenses are among the highest in the industry, and it's true. But that is not a valid reason to drag our feet on attempts to spend our expense money more wisely and stop the automatic ratcheting up of expenses every time we increase premiums by a point or two. There seems to be an attitude of entitlement to more expense money, especially in the home office departments. How will we ever achieve greater productivity and margins if we spend an extra point in expenses for every new point in premiums?

In reality, premium growth at Chubb today is the result of rate increases, not new business. Expenses should therefore be declining, not increasing, in every expense category except commissions, where expense growth is directly related to premium growth.

Our need to grow and our need to reduce our expense ratio should dictate a philosophy of allocating our discretionary expense dollars to activities which are likely to produce revenue increases. Support functions, on the other hand, need to continually find ways to do more with less. This might seem harsh, but we all know that it is rising productivity that has been the basis of the United States's competitive advantage in recent years. Chubb cannot afford to be an exception to corporate America's – and our competitors' -- relentless drive for higher productivity even as we preserve and enhance our service advantage.

Which brings me to the major point I wanted to make. And that is our need to grow. I talked in January about our need to be able to walk and chew gum at the same time – to go through the SBU process and at the same time to improve underwriting, get rate and cut expenses. ***But we also need to grow!***

The market in CCI has turned, and we can be proud that we were ***the*** company that initiated the turn. But now that at least some CCI rates are approaching "adequacy" (some are still far from adequate), we would be frittering away a golden opportunity if we did not take advantage of this strengthening market to ignite growth of CCI after years of consciously shrinking it. CCI is growing again, but not nearly at the rate budgeted for 2001. In other words, we have come too far to risk disappointing our investors again.

We should be out of our offices visiting our best producers reminding them that we are open for business, that we want to quote new business and that our prices are competitive now that everyone else has raised them. I don't mean that you should spread yourselves thin by running around to every agent on the roster or write every piece of business that comes along; you should be focusing on the best producers – such as our MVI agents – who can give us *profitable* growth by steering their *best* accounts to us. Work at building the relationships with them. Ask them for the business!

Getting on top of those renewal dates 60 to 90 days in advance will go a long way to increasing our retention rates. With everyone else in the market raising rates, we should be losing a lot less

business than we did a year or two years ago. Five percent growth becomes 10% if we can stop leakage at the other end by 5%.

We should be selling Chubb capabilities and the Chubb brand. Sometimes our producers don't even give us a shot on a piece of new business or an existing account of theirs that is unhappy with its present carrier, because we've been less active in the market than we need to be. Let's be imaginative and solve problems. Use your great producer relationships to sell our non-price advantages. We should be going to the mat to regain customers who left us because they would not pay the price we requested. Now that their new carriers have raised prices on them and possibly given them an unChubblike claims experience, these customers should be easier to sell. Why should anyone put up with sub-Chubb service when they can have Chubb for a comparable price?

CPI has done an outstanding job growing the business. CPI needs to get rate in Homeowners in certain jurisdictions; to make sure every home is re-evaluated periodically so that we have proper insurance to value; and to sell the Chubb difference as we increase rates. We all hear raves from customers about our claim service and our appraisals; our coverages are often better, but claim service is our single most important differentiator and should be at the heart of every marketing and new business effort.

CSI's growth challenge is to be in the face of our producers and customers selling our many innovative and creative new products, at the same time that we focus on improving results in the for-profit D&O and EPL lines. Here, too, we need to get out of the office, be in the market, explain the products, build on relationships and ask for the business. The products are really great but sufficiently complex that they do not sell themselves; you need to be out there, explaining and selling.

Some companies think they can save their way to prosperity. We haven't been very good at saving, so we certainly don't have those expectations here, and the hiring freeze will continue until we start growing faster than we're spending. ***But the real way to prosperity is through growth*** – profitable growth, not growth for growth's sake that comes to haunt us later when the losses start rolling in. We ***can*** do both. We ***can*** put ***much*** more business on the books without relaxing our underwriting discipline.

Apart from the specific goals, another overriding message I delivered last January was our failure to distinguish sufficiently between high performing employees and those who coast. I wanted to see more differentiation in bonus recommendations, and for the most part you delivered. Better differentiation on bonuses means more incentive comp -- hence more incentive -- for our best performers.

But I also asked that we weed out the coasters from our ranks and replace them with high performers and high-potential performers. In ***this*** area, I have not seen enough movement, even though I stated that we would make exceptions to the hiring freeze for vacancies created by terminations for poor performance. Variable comp is a function not only of your own performance but also of the company's; poor performance drags down the company's earnings and reduces the amount that even the top performers can earn.

Let me emphasize it again: Chubb is a people business, and we live and die by the quality of our people. If we're content to leave the underperformers in place, we will never get to where we need to be – not in rate, not in underwriting discipline, not in claims, not in service, not in expense control, not in growth. ***We*** win with a large bonus pool only when our ***shareholders*** win, and they win only when we attract, reward and retain only the best people – the ones who are most able to help us grow profitably.

We've made a lot of progress since January. The new SBU structure will help us reach our growth goals by placing resource allocation and accountability squarely in the hands of the businesses. But there's a lot more that needs to be done, and I've outlined the highlights. Getting down to business and doing it is the urgent call of the day: underwriting, rate, expense control – and growth. Focusing on these will help bolster our status as the premier specialty property and casualty insurer. It's a goal that we ***can*** reach. And with your help, we ***will*** reach it.